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EXCEPTION

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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IN THE MATTER OF COMPETITION IN THE)
PROVISION OF ELECTRIC SERVICES)
THROUGHOUT THE STATE OF ARIZONA)

DOCKET NO. RE-00000C-94-0165

**RUCO'S EXCEPTIONS TO RECOMMENDED ORDER
TO AMEND DECISION NO. 60977**

The Residential Utility Consumer Office ("RUCO") hereby submits its Exceptions to the Hearing Division's February 5, 1999 Recommended Order to amend Decision No. 60977 ("Recommended Order").

The Recommended Net Revenues Lost Methodology Must Not Discriminate Against Standard Offer Customers.

The Recommended Order provides that customers purchasing from the competitive market will pay a cumulative 20% less in stranded costs each year in years 2 through 5. This "step down" of stranded cost recovery is only applied to customers who purchase generation in the market however, and does not apply to Standard Offer customers, who will continue to pay 100% of their share of stranded costs over the five year period. RUCO opposes this discriminatory treatment of Standard Offer customers.

In its February 5, 1999 proposed amendments to the Rules, the Hearing Division recognizes that the collection of stranded costs via a Competitive Transition Charge (CTC) should be competitively neutral and collected from all customers. This Recommended Order's

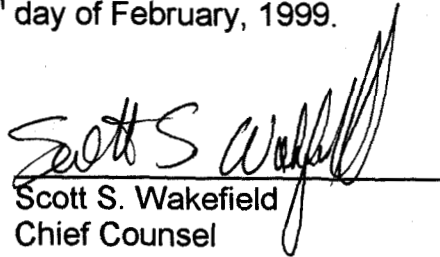
1 discriminatory treatment of Standard Offer customers is inconsistent with the principle
2 embodied in the proposed Rules that the CTC should be competitively neutral.

3
4 Discriminating against Standard Offer customers is unfair for several reasons. First, the
5 phase-in schedule limits the number of customers who are able to purchase competitive
6 generation in the early years. In addition, new market entrants are not likely to target all
7 standard offer customers, due to geographic location and other factors. Residential customers
8 particularly are unlikely to have real competitive opportunities in the early years of competition.
9 Of the 8 Electric Service Providers that have filed applications to provide generation service,
10 only 2 have sought approval of a tariff to serve residential customers.

11
12 Allowing competitive customers to pay lower CTCs than Standard Offer customers
13 creates a *perverse incentive for customers to switch*. The proposed Rules correctly recognize
14 that the Commission should not create such incentives, but should provide a level playing field
15 on which all providers can fairly compete. The Recommended Order should therefore be
16 amended to provide that reduction of stranded cost recovery under Option 1 apply to all
17 customers, not only those who elect to purchase from competitors.

18
19 The attached Exhibit A contains the necessary amendments to the Recommended
20 Order.

21 RESPECTFULLY SUBMITTED this 17th day of February, 1999.

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24 
25 Scott S. Wakefield
26 Chief Counsel
27
28

1 An original and ten copies
2 of the foregoing filed this 17th day
3 of February, 1999 with:

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EXHIBIT A

**RUCO'S PROPOSED AMENDMENTS TO RECOMMENDED ORDER TO
AMEND DECISION NO. 60977**

Page 2, line 24

DELETE "distribution", "either", "to any customer who elects to
purchase from competitors"

Page 2, line 26 ½

DELETE "to any customer who elects to purchase from competition.
Those remaining on standard offer will still be paying 100
percent of their proportionate share of stranded costs"